WHAT DOES BEING ON THE "WATCH LIST" MEAN?

It is important that you understand what it means to be on the watch list and, perhaps more importantly, what it does not mean. Being on the watch list, as the name would imply, simply means we believe there is good reason to watch this fund more closely. Being on the watch list does not mean you should immediately sell your fund shares. It is not unusual for a fund to appear on the list from time to time. It does not mean the fund is necessarily a bad investment. If we believe the fund no longer represents a suitable investment option, we will remove the fund from the Plan.

Why are funds placed on the watch list?

Funds can be placed on the watch list for several reasons. Why a fund is on the watch list is more important than the mere fact that it is on the watch list. The most typical reasons are as follows:

1. **Performance**—The most common reason a fund is placed on the watch list is poor performance relative to its appropriate market benchmark and/or peer group. When signs of relative underperformance appear, we place a fund on the watch list.
2. **Risk**—Less obvious to many participants is the risk that a fund manager incurs. If a fund becomes too volatile, we will place it on the watch list.
3. **Risk-Adjusted Returns**—What returns has the fund manager been able to deliver relative to the risk the fund has incurred? If the manager is unable to deliver adequate returns for the risk taken, we will place the fund on the watch list.
4. **Portfolio Construction/Style Drift**—Is the fund manager investing the money in the way he or she said? If you invest part of your assets in an aggressive fund that is supposed to be investing in the stocks of small, growth-oriented companies, then you want the manager to do just that. We monitor the manager's portfolio, and if the security holdings do not reflect what has been communicated, we place the fund on the watch list.
5. **Operations**—There are many operational reasons for placing a fund on the watch list. For example, the manager of the fund could leave. Remember, when you purchase shares of a mutual fund, what you are really doing is hiring a professional portfolio manager to invest your money. If that manager leaves, you should watch the fund closely.

There could also be firm-level issues. These can include issues such as regulatory violations, turnover in senior management, or a merger or acquisition. Any of these operational issues will automatically place a fund on the watch list.

WATCH LIST—THE STATE OF ILLINOIS DEFERRED COMPENSATION PLAN

Current Watch List Summary

The following funds are on the watch list as of 03/31/2008:

The Ariel Fund has underperformed year-to-date and continues to lag for the longer term periods. The fund ranks in the 69th percentile for Small - Mid Cap Value funds over the one year period that ended February 29, 2008. The fund has moved up in market cap and, therefore, we have re-classified it as a Small-Mid Value fund benchmarked to the Russell 2500 Value Index. For those participants who bought this fund for small value exposure, the Plan has added a new small value option, the Northern Small Cap Value Fund. We are keeping the fund on the watch list due to the longer term returns.

The Legg Mason Value Trust continues to be hurt by exposure to home builders and financial firms. The fund had outperformed the S&P 500 15 straight calendar years, but it is in the 99th percentile for the one-year period ending February 29, 2008. The fund is positioned for the rebound from the credit crunch and housing crisis and should do very well when that happens, but it will continue to underperform as long as the crisis continues. This fund is highly concentrated and, therefore, very volatile. For those wishing for a more stable large-cap blend option, there is the Vanguard Index Fund in the Plan.

Funds to be removed

The Wells Fargo Large Company Growth Fund and the T. Rowe Price International Stock Fund are being removed from the Plan effective May 8, 2008. Both funds have underperformed for some time and have been on the watch list. The Wells Fargo fund had underperformed for some time because of its strong growth style being out of favor, and last year when growth came back, and actually outperformed, we became very concerned that the fund did not respond as we felt it should.

The T. Rowe Price fund had underperformed for some time and then changed managers in October of last year. We did not feel comfortable with the change in management and felt it was time to take action.

There are two new international options, Invesco International Growth Equity Trust and Janus Adviser International Growth Fund, and a new large-cap growth option, Wellington Trust Diversified Growth Portfolio, that have been added to the plan as replacements.

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SECOND QUARTER | APRIL 2008 | ROD R. BLAGOJEVICH, GOVERNOR

Insight

A QUARTERLY PERIODICAL DEDICATED TO HELPING YOU PREPARE FOR TOMORROW

PLAN CHANGES UNDER WAY

The State of Illinois is dedicated to helping you build a more secure retirement. That's why we're making changes to your Deferred Compensation Plan's investment lineup.

New investment options available

On **March 3, 2008**, the State added two new investment options:

- Janus Adviser International Growth Fund, Class I
- Wellington Trust Company, National Association, Multiple Collective Investment Funds Trust, Diversified Growth Portfolio ("Wellington Trust Diversified Growth")

On **May 8, 2008**, the State will add one more new investment option:

- Invesco International Growth Equity Trust (formerly called the AIM International Growth Commingled Fund)

If you would like to see fact sheets for these new investment options, visit the ***my***RetirementPlan Web site at **rps.troweprice.com** and click on the Investments tab.

Two of the new options offered in the Plan, the Invesco International Growth Equity Trust and the Wellington Trust Diversified Growth, are "common trust" funds, not mutual funds. You can learn more about common trust funds and mutual funds by reading the article entitled "The Differences Between Common Trust and Mutual Funds."

Two funds will close in May

On May 8, 2008, the State will close two investment options:

- T. Rowe Price International Stock Fund
- Wells Fargo Large Company Growth Fund

If you have money invested in these funds, you have an opportunity to move your balances to other investment options. You should also direct future contributions to other investment options. If you do not take action by **May 5, 2008**, then your existing account balances and future contributions automatically will transfer as shown in the chart:

MONEY CURRENTLY INVESTED IN...	WILL BE AUTOMATICALLY INVESTED IN...
T. Rowe Price International Stock Fund	Invesco International Growth Equity Trust
Wells Fargo Large Company Growth Fund	Wellington Trust Diversified Growth Portfolio

Time line for changes

As part of the transfer process, it will be necessary to suspend account activity for a short period of time in the funds that are being closed. Here's a brief time line that explains what will happen and when:

- **May 5, 2008: No new contributions to the funds that are closing**
  The T. Rowe Price International Stock Fund and the Wells Fargo Large Company Growth Fund will no longer receive contributions.
- **May 5, 2008: Last day to make changes before the transition period**
  This is the last day to initiate a withdrawal or make an investment change that involves the T. Rowe Price International Stock Fund or the Wells Fargo Large Company Growth Fund.

  If you would like to change your future contribution mix or the way in which your current account balance is invested, log in to the ***my***RetirementPlan Web site at **rps.troweprice.com** or call **1-888-457-5770 before 4 p.m. eastern time.**
- **May 8, 2008: Any remaining balances will be moved**
  If you have not moved any savings from the funds that are closing, your account balances will be transferred on this date. Any account balances and all future contributions will be directed as shown in the table above.
- **May 9, 2008**
  You will have full access to your account and to all investment options at 9 a.m. eastern time.

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Have questions about the Plan changes?

If you have any questions, just call T. Rowe Price at **1-888-457-5770**. Representatives are available on business days between 7 a.m. and 10 p.m. eastern time.

Call **1-888-457-5770** *to request a prospectus or trust fact sheet, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.*

THE DIFFERENCES BETWEEN COMMON TRUST AND MUTUAL FUNDS

The State of Illinois Plan offers you opportunities to invest in both mutual funds and common or "commingled" trusts. Mutual and common trust funds both pool investors' assets to purchase investments, such as stocks and bonds, in pursuit of specific investment objectives, such as income or growth of capital. Despite these similarities, there are also significant differences. Before you decide how to invest your savings, it's important that you understand them.

What is a mutual fund?

Mutual funds are offered by investment companies. Each fund has a professional money manager, a specific investment objective, and a well-defined investment strategy. Mutual funds may be marketed to potential investors through advertisements, direct mailings, and other means. The cost of attracting new investors is paid for by all of a fund's shareholders.

In general, a fund's annual operating expenses, which may pay for portfolio management, fund administration, daily fund accounting and pricing, shareholder services, distribution charges, and other costs, are paid from the fund's assets. In recent years, the average expense ratio paid by stock fund shareholders was 0.87% of fund assets.[1]

All mutual funds are tightly regulated by the Securities and Exchange Commission, which requires that all potential investors receive a prospectus describing a fund's objectives, management, fees, risks, and other information. Mutual funds also are required by law to price their shares daily. Performance information can be found in newspaper listings and on the Internet.

What is a common trust fund?

Common trust funds, also known as commingled funds or collective investment funds, generally are offered by banks and trust companies. These funds also offer investors professional money management, specific investment objectives, and well-defined investment strategies. However, they are not available to individual investors; they are only available to participants in qualified retirement plans and certain governmental plans.

Common trusts may have lower expense ratios than mutual funds with similar investment objectives, and they also provide access to institutional investment managers who do not offer mutual fund products. In part, this is because common trusts have fewer administrative requirements than mutual funds. They also have fewer marketing expenses.

Common trusts are overseen by the Office of the Comptroller of the Currency (OCC) or a state's banking authority, depending on whether the institution offering the trust has a federal or state charter. They are also subject to regulation by the Department of Labor under the Employee Retirement Income Security Act of 1974 (ERISA).

Learn more

If you would like to learn more about the investment options in our Plan, call T. Rowe Price at **1-888-457-5770** or log in to the ***my***RetirementPlan Web site at **rps.troweprice.com**.

TELEPHONE NUMBERS

Deferred Compensation

Plan Rules/Options Information
800-442-1300/ 217-782-7006
TDD/TTY: 800-526-0844
Internet: http://www.state.il.us/cms/employee/defcom

Recordkeeper

T. Rowe Price Retirement Plan Services, Inc.
Account Value Information and Investment Changes:
888-457-5770 or TDD/TTY: 800-521-0325
Internet Access: 800-541-3022
Internet: http://rps.troweprice.com

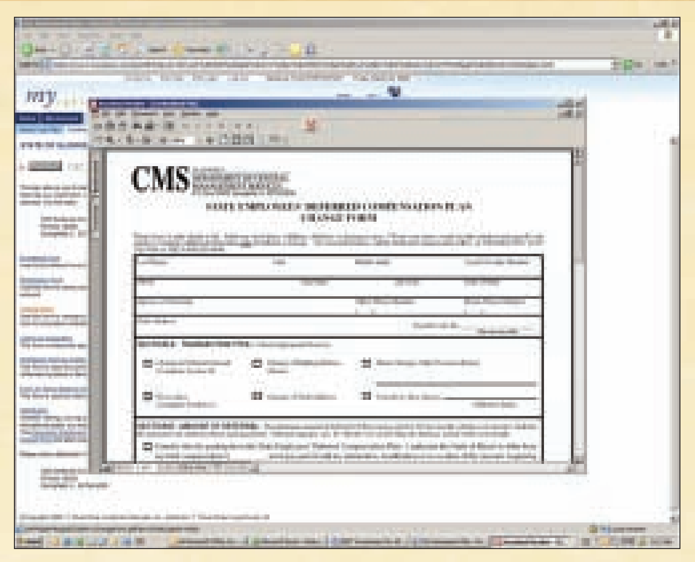
[1] Investment Company Institute, 2007 Investment Company Fact Book.

WANT TO SAVE MORE FOR RETIREMENT?

If you're saving the maximum amount in regular contributions and you're ready to save more, then you should consider making catch-up contributions. During 2008, participants who are 50 or older may be able to contribute $5,000 more than the IRS limit of $15,500 (subject to plan limits) to their plan accounts in 2008. That means you can contribute as much as $20,500 during 2008.

Currently, in plans for which T. Rowe Price acts as recordkeeper, about 11% of participants age 50 and older are maximizing their retirement income potential by making catch-up contributions to their retirement plan accounts.

If you want to make catch-up contributions, visit the ***my***RetirementPlan Web site at **rps.troweprice.com** to download the deferral change form. On the ***my***RetirementPlan Web site, choose Plan Info, click on the Forms & Literature tab, and then click on the Change Form link. Once you complete the change form, please return it to CMS.



WHAT CAN YOU GET FOR ANOTHER $10 A MONTH?

Throughout the course of a month, $10 might buy you a mocha latte, your favorite glossy magazine, or a can or two of soda. But, if you add another $10 a month to your State of Illinois Deferred Compensation Plan, it could grow to $15,000 during the next 30 years. That's on top of what you're already saving! You see, when you save through the Plan, small amounts—like $10 a month—can really add up over time.

Prepare for tomorrow, today

Do you remember the fable about the ant and the grasshopper? In the story, the ant patiently collects small bits of food to prepare for the coming winter, while the grasshopper sits back and enjoys himself—without a single thought for the future. When winter comes, the ant is prepared and the grasshopper is not.

Small amounts can really add up

When it comes to retirement, patiently contributing to your retirement plan account can really pay off. Like the ant, you can put away a little at a time and you may find that even small amounts really add up.

*Chart assumes an 8% annual return with earnings compounded monthly. Chart is for illustrative purposes only and does not represent the performance of any of your Plan's investment options.

Just look at the chart. It shows that saving and investing $10 a month can produce substantial savings over time. A $10 investment that grows at 8% a year and compounds monthly will grow to $15,003 after 30 years! Imagine what could happen if you contributed even more.

Start saving more now

What's the moral of this story? Prepare, like the ant. You don't have to save a lot—even small amounts can make a big difference over time.

To make a change to your deferral rate, visit the ***my***RetirementPlan Web site at **rps.troweprice.com** to download the deferral change form. On the ***my***RetirementPlan Web site, choose Plan Info, click on the Forms & Literature tab, and then click on the Change Form link. Once you complete the change form, please return it to CMS.